

**Illinois Chamber of Commerce, Illinois Manufacturers Association, Illinois Retail Merchants Association, Illinois Life Insurance Council, Tooling & Manufacturing Association, Chicagoland Chamber of Commerce:**

**Joint Response to the Illinois Health Reform Implementation Council's Request for Comment on Health Insurance Reform and the Option of Establishing an Insurance Exchange in Illinois**

**December 3, 2010**

As representatives of the employer and insurer communities, our organizations believe the new Health Insurance Exchange authorized by the Patient Protection and Affordable Care (PPACA) is one avenue among many to provide small employers and individual consumers access to greater coverage options. The employer community is painfully aware of the high cost of our nation's healthcare coverage and delivery system. The rapid rise of premiums over the last decade have forced many employers to make difficult decisions when it comes to their coverage decisions and, in many cases, the high cost of health coverage has simply priced smaller employers and individuals alike out of the market.

The employer community has long maintained that we can and must address the serious flaws of this system- not least of which is the millions of uninsured individuals in our state and nation- through a collaborative and market-based approach. Throughout the course of the health reform debate, we held that preservation of employer-sponsored coverage and innovation of the private market, along with choice and flexibility in selecting a health plan that best meets the needs of the consumer, are crucial to successful and sustainable health insurance reform. We also emphasized the need to ensure access to high quality healthcare accompanies access to greater coverage.

We still maintain all of those points today.

It is estimated that nearly a quarter of a million small businesses employing more than 26 million individuals will be subject to the employer mandate in 2014. The Joint Committee on Taxation estimated that employers will pay \$52 billion over the next 10 years in penalties for noncompliance with the coverage standards required by PPACA. Furthermore, the Congressional Budget Office projected that three million fewer individuals will be covered through their employer in 2019, meaning they will be receiving coverage through the Exchange.

Employers and their employees, therefore, have a tremendous stake in the development and operation of the state's health insurance Exchange.

Our organizations believe, first and foremost, that Illinois should build and maintain its own health insurance Exchange. State policymakers and stakeholders have a tremendous task ahead of them, but Illinois is best positioned to design and implement an Exchange capable of adequately addressing the coverage gaps and the needs of the market that are unique to this state. As members of the Health Reform Implementation Council and state policymakers proceed in the development of the Exchange, we ask that the PPACA goals of expanding access to healthcare coverage, improving quality of care, and making coverage more affordable be kept at the forefront.

On behalf of the thousands of employer and insurer members our organizations represent throughout Illinois, we appreciate the opportunity to share the following recommendations regarding the state's efforts to develop and implement a state-based health insurance Exchange.

Sincerely,

**Illinois Chamber of Commerce  
Illinois Manufacturers Association  
Illinois Retail Merchants Association**

**Illinois Life Insurance Council  
Tooling & Manufacturing Association  
Chicagoland Chamber of Commerce**

## **RECOMMENDATIONS**

### **1. Engage in a careful and measured approach to the planning and implementation of the Exchange.**

Our organizations believe the path to a successful state-based Exchange must first rely on a careful and thorough analysis of the state's existing market to determine where coverage gaps may exist and how coverage can best be provided to employers and individuals in a way that enhances choice of coverage without disrupting existing coverage.

Illinois has already taken the first step towards its broad-based planning for implementation of PPACA in the state, but we recommend that in 2011, state policymakers take the next step towards specific planning for the Exchange by legislatively authorizing a special health insurance Exchange committee to conduct a study that carefully evaluates policy objectives including deficiencies in the current market that an Exchange seeks to address, key design and structural elements necessary to meet those objectives, and the state's overall readiness to build what is required. We also recommend that this committee include multi-stakeholder representation across both the public and private sectors, and provide for an open and transparent process that encourages input from various constituents and stakeholders.

As the state moves forward with its Exchange planning and development phases, state policymakers must also consider the time it will take for all stakeholders to prepare for implementation of the Exchange. We also recommend that Illinois look towards testing key design elements of its state-based Exchange prior to the implementation date in order to address any challenges that may arise prior to complete implementation.

### **2. Build an Exchange based on the assessed needs of the state rather than on a “one-size fits all” model.**

There are currently two state health insurance exchange models in operation: one in Massachusetts and one in Utah. While we understand that the Exchange model advanced by the PPACA is based largely on the Massachusetts model, we also know that each state has different needs and the federal law affords states flexibility to meet those needs in the construction and operation of its Exchange. As a representative of the employer community, we have deep concerns about the Massachusetts model.

The Massachusetts' Commonwealth Connector is focused largely on the individual market and participation by small employers has been extremely limited. The cost of the Massachusetts exchange has also been highly problematic, individuals have experienced difficulty accessing appropriate and timely healthcare services, and the state is currently grappling with extreme volatility in the market, with the number of short-term buyers increasing from over 3,500 in 2006 to more than 17,000 in 2008 (according to a June 2010 MA Division of Insurance analysis of the market merger).

We also understand that the Utah exchange model is a newer model and largely untested. Unlike the Massachusetts model, it caters largely to the small group market and at this point in time, does not meet the minimum standards for an Exchange set by the PPACA. The principles upon which the Utah model are based, however, more closely align with the market-based principles we would like to see made a part of any Exchange model.

These two models represent the extremes and we believe there are lessons to be learned from both. Illinois is in a position to take those lessons learned and design an Exchange that is sensitive to our state's market and all of the stakeholders that operate within that market. The state must sign off on a basic Exchange structure next year, but that does not preclude Illinois policymakers from taking careful stock of its current capacity and existing infrastructure, and determining how those resources can best be leveraged to ensure the Exchange operates in the best interest of both the individual and small group markets.

### **3. Allow existing insurance markets to continue operation outside of the Exchange.**

While the state-based Exchange will provide a tremendous opportunity to create a new marketplace for affordable coverage for small employers and individuals, our organizations believe that this new Exchange must **supplement and not supplant** the state's insurance market that already exists. One of the principle goals of health reform- one in which the employer community has long supported- is the *expansion* of affordable coverage. Removing the existing health insurance market in Illinois would run counter to this principle.

Due to the conceptual framework, including, but not limited to the individual mandate and the risk adjustment mechanisms embodied in the law, which will greatly broaden the risk pool and properly adjust for those with extreme health risks, the employer community strongly believes that allowing plans to participate outside of the state-based Exchange is imperative.

### **4. Permit all qualifying plans to participate in the Exchange.**

In order to maximize the offerings of affordable coverage, our organizations urge the state to permit any plan that satisfies the federal statutory requirements set by PPACA for participation to offer coverage through the Exchange. We realize that Illinois will be bound by the decisions made by the Secretary of Health and Human Services as to what criteria determines plan participation, but we firmly believe that the state should not impose any additional criteria that may limit coverage options for employers and their employees within the Exchange. Furthermore, plan selection should be an open and transparent process to ensure that participation is optimized.

We believe that it is important for the state to encourage greater choice and diversity in plan options both inside the Exchange and outside of the Exchange. The establishment of the Exchange will inevitably change behaviors in the state's health insurance market, but in order for the state to provide access to high quality coverage, state policymakers should be loathe to dictate choice. Rather, the state should empower consumers to drive choice in both the Exchange market and the private market.

According to guidance released by the U.S Department of Health and Human Services on November 18, states will have "a range of options for how the Exchange operates," ranging from the "active purchaser" model to the "open marketplace" model under which the Exchange "operates as a clearinghouse that is open to all qualified insurers and relies on market forces to generate product offerings." We support and encourage Illinois to design an Exchange that is based on this "open marketplace" concept.

### **5. Establish Exchange governance independent from existing state regulatory agencies to maximize engagement of all stakeholders.**

Our organizations believe that the best approach to governance of the Exchange is through the establishment of a separate governing board that is responsible for setting policy and providing oversight of the Exchange operations. While we want to ensure the administration of the Exchange is cost-effective, we also believe it is important for Exchange governance to separate itself from the regulatory functions of the agencies. This approach not only allows for greater continuity of the Exchange throughout the course of different state administrations, but it also allows for greater input from those groups, like the employer community, that have an interest in ensuring the Exchange is sensitive and responsive to the inevitable challenges that will arise.

It is also important that the governing board allow for broad representation and expertise, including employers, consumers and those with expertise in the small group and individuals markets, including agents and brokers. We also believe it is important for this governing board to work closely with state agencies like the Department of Healthcare and Family Services and the Department of Insurance that will need to ensure the Exchange interacts effectively with the state's Medicaid program, state employees' health benefits, and the private health insurance market.

Our organizations, however, believe that any Exchange governing board should NOT maintain a separate regulatory function. The regulation of the Exchange market should remain with the Illinois Department of Insurance, which is already responsible for regulating both the state's existing health insurance market.

#### **6. Preserve and enhance the ability of employers to offer a variety of coverage options to their employees, and limit any adverse impact on employers.**

*Choice and Innovation in the Market:* Employers represent a key element in the current health insurance market, providing coverage to more than 150 million individuals nationally. It is therefore important that the state's Exchange not contain any crucial design elements that work to destabilize this market, but rather provide additional options for employers to provide coverage for their employees. The Exchange should be able to provide employers with access to a wide range of coverage options- both inside and outside the Exchange- to afford them the opportunity to continue tailoring their benefit packages to meet their employee population's needs.

*Small Group Eligibility Size:* Limiting the market disruptions that will likely occur with the introduction of the health insurance Exchange are also vital to a successful and sustainable expansion of coverage options in 2014. Therefore, it is important that Illinois' Exchange limit eligibility to 50 employees or less before considering any expansion of eligibility in the small group market. PPACA grants states the flexibility to expand their small group market Exchange to employers with 100 employees or less prior to 2017 (when the state will be required to open the Exchange up to the 51-100 employer size group). According to the Kaiser Family Foundation, 41% of small employers (50 employees or less) offer coverage while nearly 97% of employers with more than 50 employees offer coverage.

The Exchange is a largely untested coverage option that will prove challenging in and of itself to implement. In order to preserve stability in the market today, it is crucial that Illinois take a measured and cautious approach to expanding the group size limit in order to preserve stability and choices in the market as they exist today.

*Merger of the Individual and Small Group Markets:* The employer community urges state policymakers to take a careful approach towards any consideration of a possible individual and small group merger, particularly the underwriting functions of these two groups. Any consideration of merging the two markets should be based on a thorough analysis of the market and consideration of the potential

impact the merger might have on the cost of coverage to individuals and employers. A study performed by the Vermont Health Care Commission, for example, found that a merged market would most likely not lower average premiums nor would it have a material impact on the number of uninsured residents in that state. Furthermore, the report warned that a merger could prove very disruptive, causing a large increase for some individuals buying insurance with significant adverse selection possible between the group and individual markets.

Furthermore, the Massachusetts' Exchange model, which operates with a merged market, also found there to be a high degree of "market churn" as individuals tend to purchase coverage when they are sick and drop it when they are healthy. In order to maintain a stable and consistent market, the Exchange will need to consider enrollment design elements, such as a structured enrollment period, to ensure any fluctuations in the individual market do not impact cost of coverage for employers and our employees.

**7. Ensure the state adheres to uniform standards by which data elements are used to ensure that consumers and employers have access to useful, accurate, and understandable information.**

Illinois will have flexibility in the design and implementation of its Exchange; however, it is critical that the state utilize common standards for the exchange of information between employers, health plans, the Exchange and other stakeholders, building on existing HIPAA standards and financial transaction standards to the extent possible. Employers that choose to provide coverage through the Exchange will be expected to maintain financial and compliance tracking systems that interface with the Exchange, state, and federal agencies. Therefore, it is important that the Exchange collect and utilize information in standard formats in order to facilitate the secure and seamless exchange of information to necessary agencies and functional entities and streamline the process for consumers and employers.

**8. Provide for extensive outreach and education to help manage expectations and prepare consumers and employers for their expanded coverage options.**

As Exchange efforts move forward, it is important for state policymakers to understand that outreach and education on the Exchange and the expanded coverage options available to small employers and consumers in 2014 are vital to the success of the "reformed" market. Stakeholders, such as brokers and agents, can serve as effective distribution channels for this information, but individuals and small employers will also look to their health plans and even providers for this information. It is also important for the employer community to be able to effectively communicate these options to their employees and effectively manage the expectations that many employees will have in 2014.

Our organizations also believe that it is important for state policymakers to emphasize the importance of putting the consumer in the "driver's seat" when it comes to making informed decisions about their health needs. When the Exchange takes effect in 2014, Illinois insurers and providers will be asked to cover and serve a population of individuals who have historically invested in their healthcare needs only when those needs have reached critical mass. Therefore, it is not only important for these individuals to understand what their new coverage options are, but also how they utilize those coverage options appropriately and effectively in order to manage their health needs and keep costs low.

## **CONCLUSION**

The Illinois Chamber of Commerce, the Illinois Manufacturers Association, the Illinois Retail Merchants Association, the Illinois Life Insurance Council, the Tooling & Manufacturing Association, and the Chicagoland Chamber of Commerce recognize that the road ahead will be very challenging, but there are also tremendous opportunities for our state to meet the mandates set by PPACA in a way that benefits all of the players within our diverse healthcare system. We must, however, balance these coverage opportunities with providing coverage that is efficient and effective while maintaining costs.

Our organizations, and the employer and insurer community as a whole, are committed to ensuring health insurance reform in our state is successful and we are ready and willing to partner with state policymakers to realize that goal. We are sensitive to the parameters set by federal statute and federal regulations, but we also believe the key to a sustainable and effective Exchange is through a careful and collaborative approach.